

“Bridging the Gap”

Mayor Nickels’ 2006 Transportation Initiative

Proposed Business Transportation Tax Overview

What is proposed?

Companies in Seattle will pay an annual tax based on the number of full-time employees on their payrolls. The tax would be imposed annually as a flat dollar amount of \$25 per full-time equivalent employee (FTE – defined as a full-time employee or a combination of part-time employees who work 1,920 hours annually). The resulting hourly tax rate – \$0.01302 – translates to roughly a penny an hour per employee. For example, a firm with 100 full-time equivalent employees would pay a maximum \$2,500 a year.

Who pays this tax?

Most employers engaged in business activities in Seattle will pay the tax. The tax applies to hours worked in Seattle, regardless of a firm’s location. Due to state restrictions, the following types of businesses will be exempt from the tax:

- government (except the City of Seattle);
- insurers and their agents; and
- businesses selling liquor or gasoline only.

As a further incentive to promote transit use, the Mayor is also proposing that companies providing subsidized transit passes to their workers be exempt from the tax on those employees. In addition, any business with gross receipts of \$50,000 or less will be exempt from the tax.

Why propose a business transportation tax?

Since 1995, money to maintain our roads and bridges has been in rapid decline. We’ve lost about 66 percent of our dedicated funding – about \$25 million in annual transportation revenue. As a result, Seattle faces a transportation maintenance backlog of more than \$500 million. This tax will generate revenue for transportation system maintenance and improvements.

According to the 2000 U.S. Census, 563,400 people live in Seattle, about half of those residents, 230,300, work in the city and each day another 238,500 workers commute to jobs inside Seattle from their residences outside the city limits. More than half of the people who commute into Seattle drive their cars. These workers place significant demands on the city’s transportation system. It is appropriate that companies whose employees use our transportation system help pay for its maintenance and improvement.

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How much revenue is this tax expected to generate?

In its first full year of implementation, a business transportation tax of \$25 per full-time equivalent employee is expected to generate approximately \$5.5 million dollars. The revenue from this source will change over time as employment in Seattle increases and as employers expand participation in transit subsidy programs.

Do any other cities in Washington state charge such a tax?

According to a 2004 Association of Washington Cities survey, 36 cities assess an annual business tax based on the number of employees. Locally, the cities of Lynnwood, Renton, Tukwila and Redmond impose such taxes:

- Renton: \$55 per FTE or \$0.029 per hour based on 1,920 employee hours per year.
- Redmond: Base fee of \$28.25 per FTE with a surcharge of \$55 for a total of \$83.25, or \$0.014713 per employee hour with a \$0.028646 surcharge (based on 1,920 hours per year).
- Lynnwood: Flat \$88 annual business license fee, plus \$14 for each full or part-time employee.
- Tukwila has a graduated business license fee based on number of employees working in the city:
 - 0-5 employees: \$50
 - 6-100 employees: \$100
 - more than 100 employees: \$200